

Fiscal Note

Fiscal Services Division



HF 691– Property Tax Reform Omnibus (LSB 2786HV)

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Fiscal Note Version – New

Description

Division I of [House File 691](#) increases the school aid formula regular program foundation level beginning in FY 2013. The foundation level increase will be phased in until the percentage reaches 100.0% in FY 2019.

Division II changes assessment limitations for residential, agriculture, commercial, and industrial classes of property. The Division reduces the rollback growth limitation for residential and agriculture classes of property from a maximum percentage of 4.0% to 2.0% for each year. Division II also phases in a rollback for the commercial and industrial classification of properties. The phase-in begins in assessment year 2012 (impacting FY 2014) with a rollback percentage of 92.0%, and applies an annual reduction of eight percentage points annually until the rollback reaches 60.0% in assessment year 2016 (FY 2018). The Division also includes legislative intent language that specifies appropriation amounts to partially reimburse local taxing authorities for reductions in property tax revenues due to the rollback provisions for the commercial and industrial classifications of property.

Division III eliminates property tax levy rate limitations on county general and county rural funds and city general funds. These levy rate limitations are replaced by a limitation on the maximum amount of property tax dollars certified for expenditure by a city or county beginning in FY 2013. Growth in these property tax amounts would be limited based on the Midwest Consumer Price Index (CPI) and the amount of any new net valuation as specified in the Division.

Assumptions

- Increasing the school aid formula regular program foundation level will increase the amount of State aid and reduce the amount of local property tax. The assumptions used to estimate the fiscal impact of Division I include assuming no changes in enrollment or weightings for FY 2012 through FY 2019. Additionally, the future allowable growth rates will also have an impact on the estimates of Division I. This estimate provides fiscal impact scenarios assuming a 0.0% allowable growth rate for FY 2012 through FY 2019. Any allowable growth rate greater than 0.0% would increase the fiscal impact.
- Based on LSA estimates, the following table provides rollback amounts and the total taxable valuation growth under the current law and the proposal in [HF 691](#). Under current law, statewide taxable valuations are estimated to increase by 24.7% between assessment years 2011 and 2016. Statewide taxable valuations are estimated to grow 5.3% over that same time period based on the proposal.

Legislative Services Agency: HF 691 Impact on Taxable Valuations									
		Current Law Estimates				Proposal Estimates			
Assessment	Fiscal	Total	Residential	Ag.	Comm/Ind.	Total	Residential	Ag.	Comm/Ind.
Year	Year	Taxable	Rollback	Rollback	Rollback	Taxable	Rollback	Rollback	Rollback
		(in Millions)				(in Millions)			
2011	2013	\$ 144,158.3	50.5%	57.4%	100.0%	\$ 144,158.3	50.5%	57.4%	100.0%
2012	2014	149,705.0	52.5%	59.7%	100.0%	144,443.1	51.5%	58.6%	92.0%
2013	2015	156,749.0	53.3%	55.5%	100.0%	146,287.0	51.2%	53.3%	84.0%
2014	2016	163,799.6	55.4%	57.7%	100.0%	148,684.9	52.3%	54.4%	76.0%
2015	2017	171,890.5	55.9%	54.5%	100.0%	151,094.5	51.7%	50.4%	68.0%
2016	2018	179,721.1	58.2%	56.7%	100.0%	151,808.8	52.8%	51.5%	60.0%

- The school district levy impact provided in this estimate includes the school district additional levy, the instructional support program levy, the educational improvement levy, the cash reserve levy, and the management levy. Based on trend data, the LSA used a growth factor of 5.8% annually for this levy amount. The total school levy amount will not change, but reducing valuation to apply the levy amount against will result in an overall levy rate increase.
- The General Fund will replace the school district uniform levy amount as a result of any reduction in valuation compared to current law. This replacement is done through the normal operations of the school aid formula. The School Foundation uniform levy rate is \$5.40 per \$1,000 of taxable valuation.
- Trend data was used to estimate current law nonschool levy amounts and a growth rate of 5.1% was used. Current law non-school levy rates were calculated based on the non-school levy revenue growth estimate and the estimates for current law taxable valuations.
- A growth factor of 3.8% was used to estimate nonschool levy amounts for FY 2014 through FY 2018. This includes 2.5% for the Midwest consumer price index factor and 1.3% for net new construction.
- Proposed law estimated impacts on local government tax revenues include nonschool levies and school district levies that have rate restrictions.
- The intent language appropriation amounts were factored in the total proposed law levy amounts. Reductions in these intended appropriation amounts will result in a tax rate increase, a loss of local tax revenue, or a combination of both.
- The estimate is based on State totals and may differ significantly from the actual impact to each local government jurisdiction. Local taxing jurisdictions that do not have the ability to adjust levy rates may be significantly impacted by assessment limitations and any impact may be predicated on the types of property classifications within the jurisdiction. This impact is acknowledged, but not specifically measured, in this fiscal note.

Fiscal Impact

Overall Estimated General Fund Fiscal Impact

House File 691 will increase General Fund expenditures due to the increase in the school aid foundation level, replacement of uniform levy funds due to an estimated reduction in taxable valuation compared to current law, and intended General Fund appropriations specified in Division II of the Bill. The following table provides the estimated increase in General Fund expenditures between FY 2012 and FY 2019. The LSA estimates that FY 2013 will require a General Fund expenditure increase of \$57.4 million as a result of the Bill. The amount will increase annually and will require a total General Fund expenditure increase of \$799.4 million

by FY 2019. The last column in the table provides the annual General Fund expenditure increase as a result of [HF 691](#).

Legislative Services Agency: Estimated State General Fund Impact of HF 691 (Dollars in Millions)						
Assessment Year	Fiscal Year	Foundation Level Increase	Uniform Levy Replacement due to Valuation Growth Limitations	HF 691 Intent Language Appropriation Amounts	Estimated Total General Fund Expenditure Impact	Estimated Annual General Fund Expenditure Change
2010	2012	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
2011	2013	57.4	0.0	0.0	57.4	\$ 57.4
2012	2014	115.4	26.6	50.0	191.9	134.5
2013	2015	173.3	52.8	100.0	326.1	134.2
2014	2016	230.7	76.3	150.0	457.0	130.9
2015	2017	288.7	105.0	200.0	593.7	136.6
2016	2018	346.6	140.9	250.0	737.6	143.9
2017	2019	405.7	143.7	250.0	799.4	61.9

Allowable growth rates established that are greater than 0.0% in the years shown will increase the estimated General Fund expenditure amounts provided above. For example, at annual allowable growth rates of 4.0% for all years shown, the total foundation level increase amount would increase General Fund expenditures by \$555.3 million by FY 2019 (compared to \$405.7 million at 0.0% allowable growth rate for all years displayed).

The estimates provided in the previous table do not include any Property Tax Equity and Relief Fund (PTER) used to provide school aid property tax relief to school districts with the highest adjusted additional levy tax rates. In FY 2012, the amount is estimated to total \$30.7 million, including \$24.0 million from a General Fund appropriation and \$6.7 million from the remaining State sales/use tax for school infrastructure funds.

Increasing the foundation level to 100.0% will eliminate a portion of the school district additional levy and will have an impact in revenue received by Tax Increment Finance (TIF) projects. Based on data from FY 2011, the LSA estimates the amount of revenue that would be impacted by the full implementation of Division I of [HF 691](#) is \$28.4 million. The reduction amount will be phased in over the seven-year period from FY 2013 through FY 2019.

Estimated Impact of on Local Tax Revenues

The following table provides the estimated fiscal impact on local tax revenues as a result of [HF 691](#). The initial impact will first occur in FY 2014 with current law local property tax revenue estimated to total \$3.192 billion and the proposal local property tax revenue (including intent language appropriation of \$50.0 million) estimated to total \$3.148 billion, resulting in an estimated reduction of local tax revenue of \$44.2 million. By FY 2018, the current law estimate of local property tax revenue totals \$3.884 billion and the proposal amount is estimated at \$3.627 billion (including \$250.0 million from the intent language appropriation). The reduction in local tax revenue is estimated to total \$257.0 million by FY 2018. The last column in the table provides the property tax rate reduction that is estimated to result due to the intent language appropriation amounts.

Legislative Services Agency: Local Property Tax Revenue Impact of HF 691 (Dollars in Millions)						
Assessment Year	Fiscal Year	Estimated Current Law Local Property Tax Revenue	Intent Language Appropriations Amount	Estimated Proposed Law Property Tax Revenue Including Intent Language Appropriations	Proposal with Appropriations vs. Current Law	Estimated Property Tax Rate Impact of Intent Language Appropriations*
2012	2014	\$ 3,191.9	\$ 50.0	\$ 3,147.7	\$ -44.2	\$ -0.35
2013	2015	3,352.4	100.0	3,261.0	-91.4	-0.68
2014	2016	3,520.5	150.0	3,379.5	-141.0	-1.01
2015	2017	3,698.2	200.0	3,502.3	-195.9	-1.32
2016	2018	3,883.8	250.0	3,626.8	-257.0	-1.65

Notes:

Local property tax revenue includes all non-school levies and school district levies for debt, physical plant and equipment (PPEL), and public education and recreation levy (PERL).

*Property tax rates expressed in \$1,000 of taxable valuations.

Sources

Iowa Department of Management, School Aid and Taxable Valuations files
Iowa Department of Education, Certified Enrollment file
Iowa Department of Revenue
LSA analysis and calculations

/s/ Holly M. Lyons

May 2, 2011

This fiscal note was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request